

**CITY OF MILAN**  
**Washtenaw and Monroe Counties, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Fiscal Year Ended**  
**June 30, 2008**



CITY OF MILAN  
For the Year Ended June 30, 2008

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For the Year Ended June 30, 2008

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## FINANCIAL SECTION





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### Independent Auditor's Report

December 12, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Milan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milan, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Milan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Honorable Mayor and Members of the  
City Council  
City of Milan, Michigan

The management's discussion and analysis and the defined benefit pension plan trend information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milan's basic financial statements. The General Fund budget to actual statement and other supplementary information have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink that reads "Post, Smythe, Lutz and Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants





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## Management's Discussion and Analysis

As management of the City of Milan, we offer readers of the City of Milan's financial statements this narrative overview and analysis of the financial activities of the City of Milan for the fiscal year ended June 30, 2008.

### Financial Highlights

- The assets of the City of Milan exceeded its liabilities at the close of the most recent fiscal year by \$21,863,713 (net assets). Of this amount, \$3,326,827 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year the City of Milan's governmental funds reported combined ending fund balances of \$2,153,780, an increase of \$846,640 in comparison with the prior year. Approximately 81% of this total amount, \$1,745,435 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$813,578, or 20 percent of total general fund expenditures.
- The City of Milan's total debt decreased by \$675,992 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Milan's basic financial statements. The City of Milan's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Milan's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Milan's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Milan is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Milan that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Milan include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City of Milan include the water and sewer system, public transit, storm sewer, and Mooreville sewer.

The government-wide financial statements include not only the City of Milan itself (known as the *primary government*), but also a legally separate Brownfield Redevelopment Authority, and other "nonmajor" component units for which the City of Milan is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Milan, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Milan can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and

the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Milan maintains twenty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Arkona Road Special Assessment Debt Service Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Milan adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City of Milan maintains four proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Milan used the enterprise fund to account for its water and sewer activity as well as the other "nonmajor" proprietary funds. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Milan's various functions. The City of Milan uses an internal service fund to account for its fleet of vehicles and other equipment. Because both of these services predominantly benefit governmental rather than business-type functions they have been included within *governmental activities* in the government-wide financial statements.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Milan's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-47 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Milan's progress in funding its obligation to provide pension benefits to its employees. This information can be found on page 48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and proprietary funds are presented immediately following the required supplementary information on pensions. Combining statements can be found on pages 50-62 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Milan, assets exceeded liabilities by \$21,863,713 at the close of the most recent fiscal year.

By far the largest portion of the City of Milan's net assets (80 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Milan used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Milan's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Assets					
	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 5,220,384	\$ 3,905,138	\$ 2,354,708	\$ 2,196,140	\$ 7,575,092	\$ 6,101,278
Capital Assets	7,569,317	8,178,521	24,625,573	25,534,944	32,194,890	33,713,465
Total Assets	12,789,701	12,083,659	26,980,281	27,731,084	39,769,982	39,814,743
Long-term Liabilities	2,062,623	2,225,992	12,755,000	13,190,000	14,817,623	15,415,992
Other Liabilities	2,928,176	2,602,507	160,470	439,056	3,088,646	3,041,563
Total Liabilities	4,990,799	4,828,499	12,915,470	13,629,056	17,906,269	18,457,555
Net Assets:						
Invested in Capital Assets,						
net of related debt	5,584,317	5,952,529	11,870,573	12,344,944	17,454,890	18,297,473
Restricted	408,345	349,283	673,651	460,367	1,081,996	809,650
Unrestricted	1,806,240	953,348	1,520,587	1,296,717	3,326,827	2,250,065
Total Net Assets	\$ 7,798,902	\$ 7,255,160	\$ 14,064,811	\$ 14,102,028	\$ 21,863,713	\$ 21,357,188

An additional portion of the City of Milan's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,326,827) may be used to meet the government's ongoing obligations to citizens and creditors.



At the end of the current fiscal year the City of Milan is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$506,525 during the current fiscal year as shown in the table below:

	Governmental Activities		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Revenues:						
Charges for Services	\$ 1,237,361	\$ 1,288,323	\$ 1,863,919	\$ 1,722,573	\$ 3,101,280	\$ 3,010,896
Operating Grants	508,131	507,085	7,821	245,034	515,952	752,119
Capital Grants	-	-	259,310	180,551	259,310	180,551
General Revenues:						
Property Taxes	3,562,063	3,530,863	-	-	3,562,063	3,530,863
State Shared Revenues	431,608	440,532	-	-	431,608	440,532
Investment Earnings	154,801	107,799	53,577	216,350	208,378	324,149
Transfers	(560,005)	(614,409)	560,005	581,609	-	(32,800)
Other	(49,934)	7,921	(188,219)	-	(238,153)	7,921
Total Revenues	<u>5,284,025</u>	<u>5,268,114</u>	<u>2,556,413</u>	<u>2,946,117</u>	<u>7,840,438</u>	<u>8,214,231</u>
Program Expenses:						
General Government	1,188,673	1,217,013	-	-	1,188,673	1,217,013
Public Safety	1,682,177	1,816,014	-	-	1,682,177	1,816,014
Public Works	1,343,257	1,371,599	-	-	1,343,257	1,371,599
Health and Welfare	75,859	79,866	-	-	75,859	79,866
Recreation and Culture	359,414	445,472	-	-	359,414	445,472
Interest- Long-Term Debt	90,903	101,585	-	-	90,903	101,585
Other	-	-	78,757	434,974	78,757	434,974
Water and Sewer	-	-	2,514,873	2,241,666	2,514,873	2,241,666
Total Expenses	<u>4,740,283</u>	<u>5,031,549</u>	<u>2,593,630</u>	<u>2,676,640</u>	<u>7,333,913</u>	<u>7,708,189</u>
Change in Net Assets	<u>\$ 543,742</u>	<u>\$ 236,565</u>	<u>\$ (37,217)</u>	<u>\$ 269,477</u>	<u>\$ 506,525</u>	<u>\$ 506,042</u>

**Governmental activities.** Governmental activities increased the City of Milan's net assets by \$543,742, as operating revenues exceeded expenses. This result was somewhat offset by transfers to the Water and Sewer fund for debt service costs (\$550,632).

**Business-type activities.** Business-type activities decreased the City of Milan's net assets by \$37,217. Key elements of this decrease are as follows:

- Operating transfers from the general fund           \$ 550,632
- Interest Expense water and sewer fund           \$ 517,386
- Capital contributions                                       \$ 259,310
- Discontinuation of Milan Public Transit           \$ 136,043

### **Financial Analysis of the Government's Funds**

As noted earlier, the City of Milan used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Milan's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Milan's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year the City of Milan's governmental funds reported combined ending fund balances of \$2,153,780, an increase of \$846,640 in comparison with the prior year. Approximately 81% of this total amount (\$1,745,435) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$223,501), 2) to accomplish capital projects (\$184,844).

The general fund is the chief operating fund of the City of Milan. At the end of the current fiscal year unreserved fund balance of the general fund and the total fund balance was \$813,578. Unreserved fund balance represents 20 percent of total general fund expenditures.

The fund balance of the City of Milan's general fund increased by \$533,342 during the current fiscal year. Key factors were as follows:

- \$175,312 in operating cost reductions, somewhat offset by increase to capital outlay expenses (\$72,981), when compared to the prior year.
- Reduced net transfers to other funds for operations and debt service and to component units over the prior year (\$126,875).
- One time revenues realized from the sale of surplus property (\$101,722)

**Proprietary funds.** The City of Milan's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,409,910. The total growth in net assets was \$100,913. Other factors concerning the finances of the fund have already been addressed in the discussion of the City of Milan's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original expenditure budget and the final amended expenditure budget were \$173,149 which represented minor changes in budgetary appropriations, and increase in contingency budget.

### **Capital Asset and Debt Administration**

**Capital assets.** The City of Milan's investment in capital assets for its governmental and business type activities as of June 30, 2008 amounts to \$32,194,890 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads and highways. The total decrease in the City of Milan's investment in capital assets for the current fiscal year was 4.5 percent (a 7.5 percent decrease for governmental activities and a 3.6 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Disposal of Milan Public Transit Assets \$ 188,219

Details to the City's capital assets are continued in the notes to the financial statements on pages 37-38.

**Long-term debt.** At the end of the current fiscal year the City of Milan had total bonded and installment debt outstanding of \$14,817,623 all of which is backed by the full faith and credit of the city.

Additional information on the City of Milan's long-term debt can be found in note IV.D on pages 41-42.

### **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate is still high in the State of Michigan and the State's budget plan may result in reduced state shared revenues. The City of Milan's millage rate was reduced again by the Headlee Amendment rollback to 18.3166 for general operating purposes; however we will only levy 15.50 mills. These factors were considered in preparing the City of Milan's budget for the 2009 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased by \$533,342. The City of Milan has presented a balanced budget in the 2009 fiscal year budget, as there was no significant unreserved fund balance to appropriate, and significant contingencies (as discussed in note V.F. page 47) exist relative to property tax litigation, and financing for the waste water treatment plant debt.

Significant operational adjustments were necessary in the 2008-2009 budget years to accomplish the debt service payments, due to the shortfall of capital charges (tap fees) projected to provide the majority of the annual debt costs. The 2008-2009 budget shows the following sources for debt service costs:

• Transfers from General Fund	\$550,000
• Surplus revenues Water and Sewer	330,000
• Tap Fees	100,000

The City administration and City Council will have to continue its diligent review of operating costs, to insure that these funding plans are viable.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Milan's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer, 147 Wabash, Milan, MI 48160.

## BASIC FINANCIAL STATEMENTS



**CITY OF MILAN**  
**Statement of Net Assets**  
**June 30, 2008**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,933,228	\$ 993,918	\$ 3,927,146	\$ 277,963
Investments	123,843	-	123,843	-
Receivables (net of allowance for uncollectibles):				
Special Assessments	1,758,400	-	1,758,400	-
Accounts	275,857	422,407	698,264	83
Due from Other Funds	56,653	116,569	173,222	-
Due from Primary Government	-	-	-	615
Due from Other Governmental Units	49,849	12,353	62,202	-
Inventory	-	63,190	63,190	-
Prepaid Expenditures	22,554	3,852	26,406	-
Restricted Assets - Cash	-	742,419	742,419	-
Capital Assets (Net of Accumulated Depreciation)	7,569,317	24,625,573	32,194,890	-
Total Assets	<u>12,789,701</u>	<u>26,980,281</u>	<u>39,769,982</u>	<u>278,661</u>
<b>LIABILITIES</b>				
Accounts Payable	989,430	37,683	1,027,113	93
Accrued Liabilities	63,162	71,715	134,877	-
Due to Other Funds	116,569	51,072	167,641	-
Due to Component Units	615	-	615	-
Deferred Revenue	1,758,400	-	1,758,400	-
Noncurrent Liabilities:				
Due within one year	180,000	465,000	645,000	-
Compensated Absences Due in more than one year	77,623	-	77,623	-
Due in more than one year	1,805,000	12,290,000	14,095,000	-
Total Liabilities	<u>4,990,799</u>	<u>12,915,470</u>	<u>17,906,269</u>	<u>93</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	5,584,317	11,870,573	17,454,890	-
Restricted for:				
Capital Projects	184,844	448,288	633,132	-
Debt Service	223,501	225,363	448,864	-
Unrestricted	1,806,240	1,520,587	3,326,827	278,568
Total Net Assets	<u>\$ 7,798,902</u>	<u>\$ 14,064,811</u>	<u>\$ 21,863,713</u>	<u>\$ 278,568</u>

**CITY OF MILAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

<b>Functions/Programs</b>	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,188,673	\$ 279,665	\$ 55,728	\$ -
Public Safety	1,682,177	140,675	148,058	-
Public Works	1,343,257	712,325	304,345	-
Health and Welfare	75,859	-	-	-
Recreation and Cultural	359,414	104,696	-	-
Interest on Long-Term Debt	90,903	-	-	-
Total Governmental Activities	<u>4,740,283</u>	<u>1,237,361</u>	<u>508,131</u>	<u>-</u>
Business-type Activities:				
Water and Sewer	2,514,873	1,863,863	-	251,310
Other	78,757	56	7,821	8,000
Total Business-type Activities	<u>2,593,630</u>	<u>1,863,919</u>	<u>7,821</u>	<u>259,310</u>
Total Primary Government	<u>\$ 7,333,913</u>	<u>\$ 3,101,280</u>	<u>\$ 515,952</u>	<u>\$ 259,310</u>
 <b>Component Units</b>	 <u>\$ 13,031</u>	 <u>\$ 2,616</u>	 <u>\$ -</u>	 <u>\$ -</u>

General Revenues:  
Property Taxes  
State Shared Revenue  
Unrestricted Investment Earnings  
Gain(Loss) on Disposal of Capital Assets  
Transfers In (out)  
Total General Revenues and Transfers

Change in Net Assets  
Net Assets - Beginning

Net Assets - Ending



**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (853,280)	\$ -	\$ (853,280)	\$ -
(1,393,444)	-	(1,393,444)	-
(326,587)	-	(326,587)	-
(75,859)	-	(75,859)	-
(254,718)	-	(254,718)	-
(90,903)	-	(90,903)	-
<u>(2,994,791)</u>	<u>-</u>	<u>(2,994,791)</u>	<u>-</u>
-	(399,700)	(399,700)	-
-	(62,880)	(62,880)	-
<u>-</u>	<u>(462,580)</u>	<u>(462,580)</u>	<u>-</u>
<u>(2,994,791)</u>	<u>(462,580)</u>	<u>(3,457,371)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,415)</u>
3,562,063	-	3,562,063	7,095
431,608	-	431,608	-
154,801	53,577	208,378	10,281
(49,934)	(188,219)	(238,153)	-
(560,005)	560,005	-	-
<u>3,538,533</u>	<u>425,363</u>	<u>3,963,896</u>	<u>17,376</u>
543,742	(37,217)	506,525	6,961
<u>7,255,160</u>	<u>14,102,028</u>	<u>21,357,188</u>	<u>271,607</u>
<u>\$ 7,798,902</u>	<u>\$ 14,064,811</u>	<u>\$ 21,863,713</u>	<u>\$ 278,568</u>

**CITY OF MILAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<u>General</u>	<u>Arkona Rd. Special Assess. Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 1,535,224	\$ 123,977	\$ 1,233,123	\$ 2,892,324
Investments	123,843	-	-	123,843
Receivables (net of allowance for uncollectibles):				
Accounts	226,127	-	49,500	275,627
Special Assessments	-	892,826	865,574	1,758,400
Due from Other Funds	46,144	-	9,733	55,877
Due from Other Governmental Units	-	-	49,849	49,849
Prepaid Expenditures	22,365	-	189	22,554
Total Assets	<u>\$ 1,953,703</u>	<u>\$ 1,016,803</u>	<u>\$ 2,207,968</u>	<u>\$ 5,178,474</u>

**LIABILITIES AND FUND BALANCE**

Liabilities:				
Accounts Payable	\$ 969,666	\$ -	\$ 4,976	\$ 974,642
Accrued and Other Liabilities	61,787	-	-	61,787
Due to Other Funds	108,057	-	121,193	229,250
Due to Component Units	615	-	-	615
Deferred Revenue	-	892,826	865,574	1,758,400
Total Liabilities	<u>1,140,125</u>	<u>892,826</u>	<u>991,743</u>	<u>3,024,694</u>
Fund Balances:				
Reserved for:				
Capital Projects	-	-	184,844	184,844
Debt Service	-	123,977	99,524	223,501
Unreserved for:				
General Fund	813,578	-	-	813,578
Special Revenue Funds	-	-	931,857	931,857
Total Fund Balances	<u>813,578</u>	<u>123,977</u>	<u>1,216,225</u>	<u>2,153,780</u>
Total Liabilities and Fund Balances	<u>\$ 1,953,703</u>	<u>\$ 1,016,803</u>	<u>\$ 2,207,968</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

7,275,593

Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

432,152

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(2,062,623)

\$ 7,798,902

**CITY OF MILAN**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>General</u>	<u>Arkona Rd. Special Assess. Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>				
Property Taxes	\$ 3,562,063	\$ -	\$ -	\$ 3,562,063
Special Assessments	-	147,357	108,066	255,423
Licenses and Permits	63,661	-	-	63,661
Intergovernmental:				
Federal, State and Local	484,503	-	346,570	831,073
Charges for Services	759,275	-	1,931	761,206
Fines and Forfeitures	35,445	-	-	35,445
Interest	119,663	1,936	32,891	154,490
Other	219,613	-	112,401	332,014
Total Revenues	<u>5,244,223</u>	<u>149,293</u>	<u>601,859</u>	<u>5,995,375</u>
<b><u>Expenditures</u></b>				
Current:				
General Government	1,078,959	-	11,665	1,090,624
Public Safety	1,620,157	-	13,538	1,633,695
Public Works	828,487	-	198,302	1,026,789
Health and Welfare	75,859	-	-	75,859
Recreation and Cultural	336,177	-	-	336,177
Debt Service:				
Principal	-	90,000	110,000	200,000
Interest and Other Charges	-	38,738	52,165	90,903
Capital Outlay	81,315	-	15,702	97,017
Total Expenditures	<u>4,020,954</u>	<u>128,738</u>	<u>401,372</u>	<u>4,551,064</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,223,269</u>	<u>20,555</u>	<u>200,487</u>	<u>1,444,311</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	800	-	113,056	113,856
Transfers Out	(690,727)	-	(20,800)	(711,527)
Total Other Financing Sources and Uses	<u>(689,927)</u>	<u>-</u>	<u>92,256</u>	<u>(597,671)</u>
Net Change in Fund Balances	533,342	20,555	292,743	846,640
Fund Balances - Beginning	<u>280,236</u>	<u>103,422</u>	<u>923,482</u>	<u>1,307,140</u>
Fund Balances - Ending	<u>\$ 813,578</u>	<u>\$ 123,977</u>	<u>\$ 1,216,225</u>	<u>\$ 2,153,780</u>

**CITY OF MILAN**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 846,640
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(411,199)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	198,854
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (cost basis on disposal of fixed assets).	(142,378)
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net expenses of certain activities of internal service funds is reported with governmental activities.	<u>51,825</u>
Change in net assets in governmental activities	<u>\$ 543,742</u>

**CITY OF MILAN**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2008**

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service
	Water & Sewer	Nonmajor Funds	Total	Motor Pool Fund
<b><u>ASSETS</u></b>				
Current Assets:				
Cash and Cash Equivalents	\$ 873,764	\$ 120,154	\$ 993,918	\$ 40,904
Accounts Receivable	422,407	-	422,407	230
Due From Other Funds	56,000	60,569	116,569	115,624
Due From Other Governmental Units:				
Federal	-	5,750	5,750	-
State	-	6,603	6,603	-
Inventory	63,190	-	63,190	-
Prepaid Expense	1,957	1,895	3,852	-
Total Current Assets	<u>1,417,318</u>	<u>194,971</u>	<u>1,612,289</u>	<u>156,758</u>
Restricted Assets:				
Cash-Debt Retirement	225,363	-	225,363	-
Cash-Construction	517,056	-	517,056	-
Total Restricted Assets	<u>742,419</u>	<u>-</u>	<u>742,419</u>	<u>-</u>
Property, Plant and Equipment:				
Land and Land Improvements	981,712	-	981,712	-
Building	8,142,887	-	8,142,887	-
Water and Sewer Infrastructure	23,071,618	-	23,071,618	-
Machinery, Equipment and Vehicles	4,550,983	-	4,550,983	1,425,398
Less: Accumulated Depreciation	<u>(12,121,627)</u>	<u>-</u>	<u>(12,121,627)</u>	<u>(1,131,674)</u>
Net Property, Plant and Equipment	<u>24,625,573</u>	<u>-</u>	<u>24,625,573</u>	<u>293,724</u>
Total Assets	<u>\$ 26,785,310</u>	<u>\$ 194,971</u>	<u>\$ 26,980,281</u>	<u>\$ 450,482</u>
<b><u>LIABILITIES AND EQUITY</u></b>				
Current Liabilities:				
Accounts Payable-from Unrestricted	\$ 21,908	\$ 2,502	\$ 24,410	\$ 14,788
Accounts Payable-from Restricted	13,273	-	13,273	-
Accrued Liabilities	5,223	40,847	46,070	1,375
Due to Other Funds	35,772	15,300	51,072	2,167
Due to Other Governmental Units:				
State	-	25,645	25,645	-
Current Portion of Bonds Payable	465,000	-	465,000	-
Total Current Liabilities	<u>541,176</u>	<u>84,294</u>	<u>625,470</u>	<u>18,330</u>
Long-Term Liabilities:				
Bonds Payable	<u>12,290,000</u>	<u>-</u>	<u>12,290,000</u>	<u>-</u>
Total Long-Term Liabilities	<u>12,290,000</u>	<u>-</u>	<u>12,290,000</u>	<u>-</u>
Equity:				
Invested in Capital Assets, Net of Related Debt	11,870,573	-	11,870,573	293,724
Restricted	673,651	-	673,651	-
Unrestricted	1,409,910	110,677	1,520,587	138,428
Total Equity	<u>13,954,134</u>	<u>110,677</u>	<u>14,064,811</u>	<u>432,152</u>
Total Liabilities and Equity	<u>\$ 26,785,310</u>	<u>\$ 194,971</u>	<u>\$ 26,980,281</u>	<u>\$ 450,482</u>

**CITY OF MILAN**  
**Statement of Revenues, Expenses and Changes in Fund Equity**  
**Proprietary Funds**  
**For the Year Ended June 30, 2008**

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service
	Water & Sewer	Nonmajor Funds	Total	Motor Pool Fund
<b><u>Operating Revenues:</u></b>				
Intergovernmental	\$ -	\$ 7,821	\$ 7,821	\$ -
Water Charges	572,278	-	572,278	-
Sewer Charges	1,106,725	-	1,106,725	-
Billing Fees	122,766	-	122,766	-
Other Charges for Services	62,094	56	62,150	228,428
Total Operating Revenues	<u>1,863,863</u>	<u>7,877</u>	<u>1,871,740</u>	<u>228,428</u>
<b><u>Operating Expenses:</u></b>				
Water Operating Expenses:				
Wages	67,019	-	67,019	-
Administrative Fees	82,928	-	82,928	-
Fringe Benefits	58,960	-	58,960	-
Other Operating Costs	303,181	-	303,181	-
Total Water Operating Expenses	<u>512,088</u>	<u>-</u>	<u>512,088</u>	<u>-</u>
Sewer Operating Expenses:				
Wages	32,503	-	32,503	-
Administrative Fees	82,928	-	82,928	-
Fringe Benefits	49,069	-	49,069	-
Other Operating Costs	597,843	-	597,843	-
Total Sewer Operating Expenses	<u>762,343</u>	<u>-</u>	<u>762,343</u>	<u>-</u>
Other Operating Expenses	-	78,757	78,757	132,945
Depreciation	<u>723,056</u>	<u>-</u>	<u>723,056</u>	<u>72,357</u>
Total Operating Expenses	<u>1,997,487</u>	<u>78,757</u>	<u>2,076,244</u>	<u>205,302</u>
Operating Income (Loss)	<u>(133,624)</u>	<u>(70,880)</u>	<u>(204,504)</u>	<u>23,126</u>
<b><u>Non-Operating Revenues (Expenses):</u></b>				
Interest Earned	48,902	4,675	53,577	311
Interest Expense	(517,386)	-	(517,386)	-
Loss on Asset Sales	-	(188,219)	(188,219)	(9,278)
Total Non-Operating Revenues (Expenses)	<u>(468,484)</u>	<u>(183,544)</u>	<u>(652,028)</u>	<u>(8,967)</u>
Income (Loss) before Operating Transfers	<u>(602,108)</u>	<u>(254,424)</u>	<u>(856,532)</u>	<u>14,159</u>
<b><u>Operating Transfers:</u></b>				
Operating Transfer In	550,632	108,294	658,926	37,666
Operating Transfers (Out)	<u>(98,921)</u>	<u>-</u>	<u>(98,921)</u>	<u>-</u>
Net Operating Transfers	<u>451,711</u>	<u>108,294</u>	<u>560,005</u>	<u>37,666</u>
Net Income (Loss)	<u>(150,397)</u>	<u>(146,130)</u>	<u>(296,527)</u>	<u>51,825</u>
Capital Contributions	251,310	8,000	259,310	-
Fund Equity, Beginning	<u>13,853,221</u>	<u>248,807</u>	<u>14,102,028</u>	<u>380,327</u>
Fund Equity, Ending	<u>\$ 13,954,134</u>	<u>\$ 110,677</u>	<u>\$ 14,064,811</u>	<u>\$ 432,152</u>

**CITY OF MILAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2008**

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service
	Water & Sewer	Nonmajor Funds	Total	Motor Pool Fund
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from customers and users	\$ 1,829,748	\$ 6,193	\$ 1,835,941	\$ -
Receipts from quasi-external transactions	-	-	-	229,361
Payments to suppliers	(1,497,983)	(62,015)	(1,559,998)	(223,790)
Payments to employees	(99,522)	(4,425)	(103,947)	-
Net Cash Provided (Used) by Operating Activities	232,243	(60,247)	171,996	5,571
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Transfer from other funds	550,632	48,294	598,926	37,666
Transfer to other funds	(98,921)	-	(98,921)	-
Net Cash Provided by Noncapital Financing Activities	451,711	48,294	500,005	37,666
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Proceeds from Capital Charges	251,310	8,000	259,310	-
Purchases of Capital Assets	(1,904)	-	(1,904)	(27,358)
Proceeds From Sale of Capital Assets	-	-	-	1,350
Principal Paid on Capital Debt	(435,000)	-	(435,000)	(37,666)
Interest Paid on Capital Debt	(517,386)	-	(517,386)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(702,980)	8,000	(694,980)	(63,674)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Sale of Investments	118,069	-	118,069	-
Interest Earned	48,902	4,675	53,577	311
Net Cash Provided (Used) by Investing Activities	166,971	4,675	171,646	311
Net Increase (Decrease) in Cash and Cash Equivalents	147,945	722	148,667	(20,126)
Cash and Cash Equivalents, Beginning	1,468,238	119,432	1,587,670	61,030
Cash and Cash Equivalents, Ending	\$ 1,616,183	\$ 120,154	\$ 1,736,337	\$ 40,904
<b><u>Balance Sheet Classifications:</u></b>				
Cash and Cash Equivalents	\$ 873,764	\$ 120,154	\$ 993,918	\$ 40,904
Restricted Assets - Cash and Cash Equivalents	742,419	-	742,419	-
Total	\$ 1,616,183	\$ 120,154	\$ 1,736,337	\$ 40,904
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>				
Operating Income (Loss)	\$ (133,624)	\$ (70,880)	\$ (204,504)	\$ 23,126
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	723,056	-	723,056	72,357
(Increase) Decrease in Receivables	(34,115)	-	(34,115)	933
(Increase) Decrease in Due from Other Funds	(38,657)	-	(38,657)	(100,524)
(Increase) Decrease in Due from Other Units	-	(1,115)	(1,115)	-
(Increase) Decrease in Prepaid Expenses	(1,361)	(1,797)	(3,158)	-
(Increase) Decrease in Inventory	9,075	-	9,075	-
Increase (Decrease) in Accounts Payable	(329,532)	594	(328,938)	7,462
Increase (Decrease) in Accrued Liabilities	2,767	41,246	44,013	50
Increase (Decrease) in Due to Other Funds	34,634	(28,295)	6,339	2,167
Net Cash Provided (Used) by Operating Activities	\$ 232,243	\$ (60,247)	\$ 171,996	\$ 5,571

**CITY OF MILAN**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2008**

<u>ASSETS</u>	Retirement Health Savings	Trust Funds	Agency Funds
Cash	\$ -	\$ 30,773	\$ 4,182
Investments, at Fair Value	234,125	-	-
Accounts Receivable	-	-	873
Total Assets	<u>234,125</u>	<u>30,773</u>	<u>5,055</u>
<u>LIABILITIES</u>			
Accounts Payable	-	9,240	5,055
Due to Other Funds	-	5,581	-
Total Liabilities	<u>-</u>	<u>14,821</u>	<u>5,055</u>
Net Assets Held in Trust	\$ <u>234,125</u>	\$ <u>15,952</u>	\$ <u>-</u>



**CITY OF MILAN**  
**Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2008**

	Retirement Health Savings	Trust Funds
<b><u>ADDITIONS</u></b>		
Investment Income:		
Earnings on Investments	\$ 2,755	\$ 726
Net Appreciation (Depreciation) in Fair Value of Investments		-
Contributions:		
Employee	7,336	-
Total Additions	<u>10,091</u>	<u>726</u>
<b><u>DEDUCTIONS</u></b>		
Benefits Paid	<u>21,785</u>	-
Net Increase (Decrease)	(11,694)	726
Net Assets Held in Trust		
July 1	<u>245,819</u>	<u>15,226</u>
June 30	\$ <u><u>234,125</u></u>	\$ <u><u>15,952</u></u>



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Milan, Michigan, a Municipal Corporation, was established in 1831, chartered as a Village in 1885 and became a City in 1967. Located 12 miles south of Ann Arbor, 45 miles southwest of Detroit and 25 miles north of the Ohio State line, the City covers an area of 3.00 square miles. Milan is a Home-Rule City, which operates under an elected City Council which consists of the Mayor and six Council members, with the daily activity managed by the City Administrator and Department Heads. The City provides services to its more than 5,200 residents in many areas including law enforcement, fire protection, water, sewer, transportation, parks and recreation.

As required by generally accepted accounting principles, these financial statements present the City of Milan and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. Each discretely presented component unit has a June 30 year end.

*Discretely Presented Component Units*

The City of Milan Downtown Development Authority (DDA) Board is comprised of the Mayor and eight (8) members appointed by the City Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Milan City Council.

The City of Milan Economic Development Corporation (EDC) is governed by a nine (9) member board appointed by the City Council. The EDC was established to promote economic development within the City. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Brownfield Redevelopment Authority (BRA) was established pursuant to Public Act 381 of 1996 to promote the revitalization of environmentally distressed areas in the City. The BRA is governed by a seven member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Historical Commission (HC) was established to preserve the Hack House property. The Historical Commission consists of a five (5) member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity – Continued

*Discretely Presented Component Units – Continued*

The above component units are discretely presented with the City's financial statements because they are legally separate and financially accountable to the City. Financial accountability is demonstrated by the City Council making the appointments to the respective Boards, approving the annual operating budgets and any amendments of each component unit and approving the projects undertaken by the BRA and HC and the development and financing plans of the EDC and DDA (Condensed financial information represented below).

STATEMENT OF NET ASSETS - COMPONENT UNITS

	Brownfield Redevelopment Authority	Other Non Major Governmental Funds	Total Component Units
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 258,455	\$ 19,508	\$ 277,963
Due from Primary Government	-	615	615
Accounts Receivable	-	83	83
Total Assets	<u>258,455</u>	<u>20,206</u>	<u>278,661</u>
<u>LIABILITIES</u>			
Accounts Payable	-	93	93
Total Liabilities	<u>-</u>	<u>93</u>	<u>93</u>
<u>NET ASSETS</u>			
Unrestricted	<u>\$ 258,455</u>	<u>\$ 20,113</u>	<u>\$ 278,568</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity – Continued

*Discretely Presented Component Units – Continued*

STATEMENT OF ACTIVITIES - COMPONENT UNITS

	Brownfield Redevelopment Authority	Other Nonmajor Governmental Funds	Total Component Units
Expenses	\$ -	\$ (13,031)	\$ (13,031)
Program Revenues	-	2,616	2,616
Net Revenues	-	(10,415)	(10,415)
General Revenues:			
Property Taxes	-	7,095	7,095
Unrestricted investment Earnings (Loss)	9,640	641	10,281
Change in Net Assets	9,640	(2,679)	6,961
Net Assets-Beginning	248,815	22,792	271,607
Net Assets-Ending	\$ 258,455	\$ 20,113	\$ 278,568

*Joint Venture*

The City is a participant with London Township, Milan Township, and York Township in the Milan Area Fire Department. The Department was established by inter local agreements between the parties in 1980, and was established to provide fire protection services to the participating communities. The Department is governed by an executive committee consisting of the chief executive from each of the communities, along with appointed members by each community's governing body. No share ownership of the assets are available since the Department does not maintain the separate accounting of the fixed assets required by the agreements. Financial statements are available by contacting the Milan Area Fire Department.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental*

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

*activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Arkona Road Special Assessment Debt Service Fund-used to account for financial resources accumulated to pay principal and interest on the special assessment bonds.

In addition, the City reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital project funds are used to account for construction projects and their related revenue sources.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise fund is the Water and Sewer Fund which is reported as a major fund, and the nonmajor enterprise funds, Storm Sewer, Mooreville Sewer and Public Transit funds.

Internal Service Funds account for operations that provide services to other departments or agencies of the City on a cost reimbursement basis. As these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental* activities in the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The trust funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments or other funds.



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds – Continued

The agency funds are used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are accounted for using the modified accrual basis of accounting.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Receivables and Payables – Continued

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowances for uncollectible accounts, which are recorded \$-0- at June 30, 2008.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Resources for the debt service and construction activity within the Water and Sewer Fund (Enterprise Fund) are segregated and classified as "Restricted Assets". Assets restricted for debt service total \$225,363 at June 30, 2008, while assets restricted for construction total \$517,056.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Equipment	5-20
Infrastructure	15-30

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. The total liability at June 30, 2008 is \$77,623.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The detail of this \$2,062,623 difference is as follows:

General Obligation Bonds	\$1,985,000
Compensated Absences Payable	<u>77,623</u>
	<u>\$2,062,623</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The detail of this \$(411,199) difference is as follows:

Capital Outlay	\$ 97,017
Depreciation Expense	<u>(508,216)</u>
	<u>\$ (411,199)</u>

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost (net of accumulated depreciation) of the assets sold:

Cost of Land and Building Sold	\$ (146,644)
Accumulated Depreciation on Building Sold	<u>4,266</u>
Net Cost of Assets Sold	<u>\$ (142,378)</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – Continued

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities – Continued

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities”. The details of this \$198,854 difference are as follows:

Principal Repayments - categorized as debt service	\$ 200,000
Principal Repayments - in General Fund Police Budget	3,326
Compensated Absences	<u>(4,472)</u>
	<u>\$ 198,854</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:
  - a. Budgets must be adopted for the General and Special Revenue Funds.
  - b. Budgets must be balanced.
  - c. Budgets must be amended as necessary.
  - d. Public hearings must be held prior to adoption.
  - e. Expenditures cannot exceed budget appropriations.
  - f. Expenditures must be authorized by a budget appropriation prior to being incurred.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

A. Budgetary Information – Continued

2. The City follows these procedures in establishing the budgetary data reflected in these financial statements:

- a. In accordance with State law, prior to May 1, the Mayor and City Administrator submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year. Detail line item budgets are included for administrative control. The level of control for the detail budgets is at the department level.
- b. Public hearings are conducted at City Hall to obtain taxpayer comments.
- c. Prior to June 30, the budgets are legally enacted at the activity level for the General Fund and at the total fund expenditure level for the Special Revenue Funds through passage of a resolution.
- d. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- e. Budget appropriations lapse at year end.
- f. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
- g. Budgeted amounts are reported as originally adopted, or as amended by the City Council.

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no fund balance deficits.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978 – Continued

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
City Hall and Grounds	\$ 36,000	\$ 38,724	\$ 2,724
Other (Leave Fund)	25,001	32,892	7,891
Community Promotion	1,000	1,749	749
Capital Outlay	79,731	81,315	1,584

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law the City is permitted to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Health Savings Fund is also authorized by Michigan Public Act 149 of 1999, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt, or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

The City's cash and investments are subject to several types of risk, which are detailed below:

Custodial Credit Risk of Bank Deposits

In the event of a bank failure, the City's deposits may not be recovered. The City does not have a deposit policy for custodial credit risk. As of June 30, 2008, the City's book balance of its deposits was \$4,704,220; the total book balance was \$4,704,520, due to \$300 in cash on hand. The bank balance was \$4,754,847 which was exposed to custodial credit risk, as follows:

		<u>Bank Balance</u>	
Insured by F.D.I.C		\$ 210,000	
Uninsured and Uncollateralized		<u>4,544,847</u>	
Total		<u>\$4,754,847</u>	

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>FDIC Insured</u>
Downtown Development Authority	\$ 1,995	\$ 1,995	\$ 1,995
Economic Development Corporation	9,518	9,518	1,073
Brownfield Redevelopment Authority	258,455	258,557	3,451
Historical Commission	<u>7,995</u>	<u>7,995</u>	<u>1,456</u>
	<u>\$ 277,963</u>	<u>\$ 278,065</u>	<u>\$ 7,975</u>

A reconciliation of cash to the accompanying financial statement follows:

Statement of Net Assets:	
Cash and Cash Equivalents	\$ 3,927,146
Restricted Assets-Cash	742,419
Fiduciary Fund:	
Cash	<u>34,955</u>
Total	<u>\$ 4,704,520</u>

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maximum 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government and agency securities:		
T-Bills	\$ 24,681	6.4 Years
Federal Home Loan Mortgage Corporation	99,162	1.8 Years



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Government T – Bills	\$ 24,681	AAA	S&P
U.S. government agency securities	99,162	AAA	S&P

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

Federated Home Loan Mortgage Corporation	80.07%
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Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 123,843	Counterparty
I.C.M.A. Retirement Funds	234,125	Counterparty
	<u>\$ 357,968</u>	

Reported as:

Statement of Net Assets:

Investments \$ 123,843

Statement of Net Assets – Fiduciary Funds 234,125

\$ 357,968

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 113,500	\$ -	\$ (40,000)	\$ 73,500
Capital Assets, being depreciated:				
Land Improvements	986,730	-	-	986,730
Building	3,450,610	-	(106,644)	3,343,966
Building Improvements	67,991	33,753	-	101,744
Machinery and Equipment	921,362	47,562	-	968,924
Construction in Progress	619,549	-	(619,549)	-
Infrastructure	9,089,370	635,251	-	9,724,621
Internal Service Fund	1,417,146	27,358	(19,106)	1,425,398
	<u>16,552,758</u>	<u>743,924</u>	<u>(745,299)</u>	<u>16,551,383</u>
Less: Accumulated Depreciation:				
Land Improvements	(752,390)	(42,492)	-	(794,882)
Building	(1,210,524)	(65,207)	4,266	(1,271,465)
Building Improvements	(14,189)	(3,642)	-	(17,831)
Machinery and Equipment	(797,261)	(61,682)	-	(858,943)
Infrastructure	(4,645,578)	(335,193)	-	(4,980,771)
Internal Service Fund	(1,067,795)	(72,357)	8,478	(1,131,674)
	<u>(8,487,737)</u>	<u>(580,573)</u>	<u>12,744</u>	<u>(9,055,566)</u>
Governmental Activities				
Capital Assets, net	\$ <u>8,178,521</u>	\$ <u>163,351</u>	\$ <u>(772,555)</u>	\$ <u>7,569,317</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 30,500	\$ -	\$ -	\$ 30,500
Capital Assets, being depreciated:				
Milan Public Transit	625,625	-	(625,625)	-
Water and Sewer	36,714,796	1,904	-	36,716,700
	<u>37,340,421</u>	<u>1,904</u>	<u>(625,625)</u>	<u>36,716,700</u>
Less: Accumulated Depreciation:				
Milan Public Transit	(437,406)	-	437,406	-
Water and Sewer	(11,398,571)	(723,056)	-	(12,121,627)
	<u>(11,835,977)</u>	<u>(723,056)</u>	<u>437,406</u>	<u>(12,121,627)</u>
Business Activities				
Capital Assets, net	\$ <u>25,534,944</u>	\$ <u>(721,152)</u>	\$ <u>(188,219)</u>	\$ <u>24,625,573</u>

Depreciated expense was charged to functions of the primary government as follows:

General Government	\$ 93,577
Public Safety	51,808
Public Works	339,594
Recreation and Culture	23,237
Charged though internal service funds	<u>72,357</u>
	\$ <u>580,573</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer	\$ 35,203
	Trust and Agency	5,581
	Donation Fund	2,407
	301/302 Training	786
	Motor Pool	2,167
		<u>46,144</u>
Major Street	General Fund	2,000
Donation Fund	General Fund	6,556
Cable Television Fund	General Fund	1,177
Water and Sewer	Southside Sew. D.S.F.	41,000
	Construction/Inspec.	15,000
		<u>56,000</u>
Mooreville Sewer	Water and Sewer	569
Public Transit	General Fund	60,000
Motor Pool	Local Street Fund	34,000
	Major Street Fund	28,000
	General Fund	38,324
	Mooreville Sewer	300
	Storm Sewer	15,000
		<u>115,624</u>
Total		\$ <u><u>288,070</u></u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers – Continued

2. Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Water and Sewer	General Fund	\$ 550,632
Transit		108,294
Capital Improvement		10,000
Southside Debt		21,801
		<u>690,727</u>
Local Street	Major Streets	<u>20,000</u>
General Fund	Donations	<u>800</u>
Major Streets	Water and Sewer	<u>7,000</u>
Local Streets		20,000
Motor Pool		37,666
G.O. Bond		25,555
Southside Debt		8,700
		<u>98,921</u>
Total		\$ <u><u>810,448</u></u>

Interfund accounts payable/receivables represent uncleared balances from trade accounts payable at year end, and short term advances. Transfers are the results of planned (budgeted) operating for the following:

- General Fund to Water and Sewer – assist with debt service payments
- General Fund to Other Funds – budgeted operating assistance
- Major Streets to Local Streets – transfer to accomplish local street projects
- Water and Sewer to various funds – budgeted operating assistance

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Balance Due Within 1 Year
Gov. Activities:					
G.O. Bonds	\$ 205,000	\$ -	\$ 15,000	\$ 190,000	\$ 15,000
Act 99-Note Payable	3,326	-	3,326	-	-
Special Assess. Bonds	1,980,000	-	185,000	1,795,000	165,000
Act 99-Motor Pool	37,666	-	37,666	-	-
Subtotal	<u>2,225,992</u>	<u>-</u>	<u>240,992</u>	<u>1,985,000</u>	<u>180,000</u>
Comp. Absences	73,151	4,472	-	77,623	-
	<u>\$ 2,299,143</u>	<u>\$ 4,472</u>	<u>\$ 240,992</u>	<u>\$ 2,062,623</u>	<u>\$ 180,000</u>
Business Type Activities:					
G.O. Bonds	<u>\$ 13,190,000</u>	<u>\$ -</u>	<u>\$ 435,000</u>	<u>\$ 12,755,000</u>	<u>\$ 465,000</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2008:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
Governmental Activities:				
General Obligation Bonds	1	4.50%-5.10%	2018	\$ 190,000
Special Assessment Bonds	3	2.50%-5.10%	2018	1,795,000
Total Governmental Activities				<u>\$ 1,985,000</u>
Business Type Activities:				
General Obligation Bonds	1	3.0%-4.250%	2026	<u>\$ 12,755,000</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The annual debt service requirements to maturity for debt outstanding as of June 30:

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 180,000	\$ 82,840	\$ 465,000	\$ 504,112
2010	190,000	76,495	490,000	490,162
2011	180,000	69,372	520,000	474,236
2012	190,000	62,327	545,000	457,336
2013	190,000	54,651	565,000	438,262
2014-2018	950,000	152,200	3,245,000	1,843,830
2019-2026	105,000	7,525	6,925,000	1,379,986
	<u>\$ 1,985,000</u>	<u>\$ 505,410</u>	<u>\$ 12,755,000</u>	<u>\$ 5,587,924</u>

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2008, is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Fund Balance</u>				
Reserved For:				
Capital Projects	\$ -	\$ -	\$ -	\$ 184,844
Debt Service	-	-	223,501	-
Total Reserved	<u>-</u>	<u>-</u>	<u>223,501</u>	<u>184,844</u>
Unreserved:				
Undesignated	813,578	931,857	-	-
Total Unreserved	<u>813,578</u>	<u>931,857</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 813,578</u>	<u>\$ 931,857</u>	<u>\$ 223,501</u>	<u>\$ 184,844</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year; taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills prior to “rollback” required by State laws. The City's tax levy for the 2007 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

<u>Purpose</u>	<u>Authorization</u>	<u>Term</u>	<u>Pre- Rollback Auth. Rate</u>	<u>Post Rollback Auth. Rate</u>	<u>Levied</u>
Operating	Charter	-	<u>20.0000</u>	<u>18.3166</u>	<u>15.500</u>

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City of Milan is in an agent multiple-employer defined pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2007.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing Michigan 48917.



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2008 was 24.21% for employees in management group, all other employee groups are subject to flat rate charges. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

c. Annual Pension Costs

During the fiscal year ended June 30, 2008 the City's contributions totaling \$360,009 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2005. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Fiscal Year Ended June 30,	<u>Three Year Trend Information</u>			
	Valuation	Annual	Percentage	Net
	Date	Pension	of APC	Pension
	<u>Dec. 31</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
2006	2003	271,365	100%	-0-
2007	2004	332,118	100%	-0-
2008	2005	360,009	100%	-0-

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Defined Contribution Plan

a. Plan Description

The City of Milan contributes to the City of Milan defined contribution plan, which is a defined contribution money purchase pension plan. The plan is administered by the ICMA Retirement Corporation (ICMA) who sponsors the prototype plan. Amendments are developed by ICMA and submitted to the City Council for approval.

A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All employees hired on or after July 1, 1998 are eligible to participate in the plan. Contributions made by the City or an employee vest immediately.

b. Contributions Required and Contributions Made

Each participating employee contributes 3% of gross earnings to the plan which the City will match. The employees may contribute an additional 2% for a total of 5% to the plan which will also be matched by the City. Employer contributions on behalf of the employee shall not exceed 5% of an employee's gross earnings. During the year, employee contributions totaled \$46,851 and the City's required and actual contributions amounted to \$46,851.

B. Post Retirement Health Care Benefits

In addition to providing pension benefits, the City provides certain health care insurance benefits to all full time employees of the City. All eligible full time employees who retire within the guidelines specified by the collective bargaining agreements, or City's personnel policies, are entitled to receive benefits at the levels specified in the collective bargaining agreements, or the City's personnel policies, during their retirement. Currently 4 retirees are covered by this plan. These benefits are expensed in the year paid, on a pay-as-you-go basis. For the year ended June 30, 2008, these costs amounted to \$42,860.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement requires recognizing the cost of retiree health care, as well as any other post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

C. Risk Management

The City purchases insurance coverage through traditional means. The City's property and liability and workers compensation coverages are on file in the Risk Administrator's office.

D. Major Customers

The City receives a major portion of its revenue generated from utility billing and real estate taxes from certain major customers.

The following is a summary of the fiscal 2008 revenue and percentage of total revenue for its major customers:

	<u>Utility Billing</u>		<u>Property Taxes</u>	
Federal Corrections Institution	\$ 364,205	24.3 %	\$ -	
ACH LLC	\$ 187,472	12.50%	\$1,003,278	27.7%

E. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative excess revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts for the period January 1, 2000 through June 30, 2008 are as follows:

Balance at July 1, 2007	\$ (366,707)
Fees Collected	57,864
Expenditures	<u>(136,387)</u>
Excess Revenues Over (Under Expenditures)	<u>\$ (445,230)</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

F. Contingencies

1. Property Tax Litigation

The City's major taxpayer has filed an appeal for the 2006, 2007, 2008 assessments requesting reductions of its property assessments by nearly sixty million dollars, which would result in a reduction of city tax revenues by over \$900,000 for each year appealed. The City intends to vigorously contest this appeal; however, the outcome at this time is uncertain.

2. Financing – Wastewater Treatment Plant

A significant source of repayment of the \$13,600,000 general obligation, limited tax bonds, issued in 2005 was expected to be generated from the collection of "capital charges" or "tap fees", mostly from new real estate developments. It is unlikely that the "tap fee" sales used in the bond repayment plan (average of \$666,964 per year for each year in the projection) will occur in the near term, or perhaps at all. The future debt service requirements (shown on pages 41-42, note IV. D.) are \$969,111 in 2009, with the maximum payment of \$1,047,173 in 2026.

In 2008, the City used a variety of sources to accomplish debt payments:

General Fund Transfers	\$ 550,632
Water and Sewer Revenues	250,000
Capital Charges	<u>156,500</u>
	<u>\$ 957,132</u>

In order to accomplish these transfers, the City of Milan has reduced operating expenditures by privatizing the D.P.W operations, reduced staffing in other areas, and deferred capital improvements. Future funding for the repayment of the 2005 bond issue will likely result in further service reductions to residents, higher utility rates, and increased taxes. The lack of "capital charge" revenue coupled with potential tax refunds of \$900,000 raises some doubt about the City's ability to meet future obligations, without continued cost reductions.

G. Discontinued Operations

During the year the City discontinued the operations of the Milan Public Transit, a proprietary operation of the City of Milan. Since the majority of its assets were acquired with State and Federal grants, the City was required to donate them to various governmental transit operations located in Michigan. The loss on the disposal of these assets is the remaining book value of the assets disposed. Additionally, unemployment and other claims have accrued and reported as losses in the fund's financial statements. Future costs, if any, will be paid out of the City's general fund.

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF MILAN  
Required Supplementary Information – (Unaudited)  
Defined Benefit Pension Plans – Trend Information  
For the Year Ended June 30, 2008

Municipal Employees Retirement System  
Schedule of Funding Progress

<u>Schedule of Funding Progress</u>						
Actuarial Covered Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Payroll
12/31/95	2,447,033	3,573,181	1,126,148	68	1,247,941	90 %
12/31/96	2,716,726	3,701,115	984,389	73	1,369,376	72
12/31/97	3,040,850	4,221,977	1,181,127	72	1,404,607	84
12/31/98	3,507,054	4,853,420	1,346,366	72	1,520,652	89
12/31/99	4,094,880	5,144,094	1,049,214	80	1,553,117	68
12/31/00	4,549,492	6,399,189	1,849,697	71	1,496,671	124
12/31/01	4,885,257	6,856,882	1,971,625	71	1,320,930	149
12/31/02	5,029,143	7,263,495	2,234,352	69	1,343,043	166
12/31/03	5,354,398	7,845,735	2,491,337	68	1,330,272	187
12/31/04	5,664,975	8,457,910	2,792,935	67	1,372,432	204
12/31/05	5,995,335	9,084,445	3,089,110	66	1,157,127	266
12/31/06	6,302,165	9,656,218	3,354,053	65	1,233,706	272
12/31/07	6,491,547	10,419,501	3,927,954	62	707,637	555

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases includes inflation at 4.5%	4.50-8.66%
Cost of living adjustments	None





**CITY OF MILAN**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2008**

	<b>Budgeted Amounts</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
Revenues:				
Property Taxes	\$ 3,685,435	\$ 3,685,435	\$ 3,562,063	\$ (123,372)
Licenses and Permits	60,171	60,171	63,661	3,490
Intergovernmental - Federal	-	20,600	20,600	-
Intergovernmental - State	334,385	334,385	431,608	97,223
Intergovernmental - Local	30,000	30,000	32,295	2,295
Charges for Services	724,178	724,178	759,275	35,097
Fines and Forfeitures	33,400	33,400	35,445	2,045
Interest Earnings	20,000	34,061	119,663	85,602
Other Revenues	110,079	248,567	219,613	(28,954)
Total Revenues	<u>4,997,648</u>	<u>5,170,797</u>	<u>5,244,223</u>	<u>73,426</u>
Expenditures:				
General Government:				
City Council	155,875	165,201	160,429	4,772
City Administrator	211,058	215,793	213,746	2,047
Elections	13,050	18,050	12,403	5,647
Assessor	133,014	133,014	121,222	11,792
Clerk/Treasurer	315,597	315,597	247,117	68,480
City Hall	293,782	293,782	252,426	41,356
City Hall and Grounds	36,000	36,000	38,724	(2,724)
Other	25,001	25,001	32,892	(7,891)
	<u>1,183,377</u>	<u>1,202,438</u>	<u>1,078,959</u>	<u>123,479</u>
Public Safety:				
Police	1,385,318	1,390,875	1,286,955	103,920
Fire	200,681	200,681	196,743	3,938
Building	170,938	170,938	136,387	34,551
Planning and Zoning	1,600	1,600	72	1,528
	<u>1,758,537</u>	<u>1,764,094</u>	<u>1,620,157</u>	<u>143,937</u>
Public Works:				
Department of Public Works	447,294	447,294	411,963	35,331
Sanitation	419,102	419,102	416,524	2,578
	<u>866,396</u>	<u>866,396</u>	<u>828,487</u>	<u>37,909</u>
Recreation and Cultural:				
Health and Welfare:				
Senior Citizens	76,725	76,725	74,110	2,615
Community Promotion	1,000	1,000	1,749	(749)
	<u>77,725</u>	<u>77,725</u>	<u>75,859</u>	<u>1,866</u>
Recreation and Cultural-Parks & Recreation	410,372	410,372	336,177	74,195
Capital Outlay	43,200	79,731	81,315	(1,584)
Contingency	51,322	163,322	-	163,322
Total Expenditures	<u>4,390,929</u>	<u>4,564,078</u>	<u>4,020,954</u>	<u>543,124</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>606,719</u>	<u>606,719</u>	<u>1,223,269</u>	<u>616,550</u>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	1,800	1,800	800	(1,000)
Operating Transfers Out	(633,521)	(633,521)	(690,727)	(57,206)
Total Other Financing Sources (Uses)	<u>(631,721)</u>	<u>(631,721)</u>	<u>(689,927)</u>	<u>(58,206)</u>
Net Change in Fund Balance	(25,002)	(25,002)	533,342	558,344
Fund Balance - Beginning	<u>280,236</u>	<u>280,236</u>	<u>280,236</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 255,234</u>	<u>\$ 255,234</u>	<u>\$ 813,578</u>	<u>\$ 558,344</u>



OTHER SUPPLEMENTARY INFORMATION

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total Nonmajor Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 907,580	\$ 140,699	\$ 184,844	\$ 1,233,123
Accounts Receivable	49,500	-	-	49,500
Special Assessment Receivable	-	865,574	-	865,574
Due from Other Governmental Units	49,849	-	-	49,849
Due from Other Funds	9,733	-	-	9,733
Prepaid Expenditures	189	-	-	189
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	\$ <u>1,016,851</u>	\$ <u>1,006,273</u>	\$ <u>184,844</u>	\$ <u>2,207,968</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Accounts Payable	\$ 4,801	\$ 175	\$ -	\$ 4,976
Deferred Revenue	-	865,574	-	865,574
Due to Other Funds	80,193	41,000	-	121,193
Total Liabilities	<u>84,994</u>	<u>906,749</u>	<u>-</u>	<u>991,743</u>
Fund Balance:				
Reserved for :				
Capital Projects	-	-	184,844	184,844
Debt Service	-	99,524	-	99,524
Unreserved	931,857	-	-	931,857
Total Fund Balance	<u>931,857</u>	<u>99,524</u>	<u>184,844</u>	<u>1,216,225</u>
Total Liabilities and Fund Balance	\$ <u>1,016,851</u>	\$ <u>1,006,273</u>	\$ <u>184,844</u>	\$ <u>2,207,968</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2008**

	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Project</b>	<b>Total Nonmajor Governmental Funds</b>
<b><u>Revenues:</u></b>				
Special Assessments	\$ -	\$ 108,066	\$ -	\$ 108,066
Intergovernmental	346,570	-	-	346,570
Charges for Services	1,931	-	-	1,931
Interest	19,681	2,758	10,452	32,891
Other	99,061	-	13,340	112,401
Total Revenues	<u>467,243</u>	<u>110,824</u>	<u>23,792</u>	<u>601,859</u>
<b><u>Expenditures:</u></b>				
General Government	11,665	-	-	11,665
Public Safety	13,538	-	-	13,538
Public Works	198,302	-	-	198,302
Debt Service:				
Principal	-	110,000	-	110,000
Interest and Other Charges	-	52,165	-	52,165
Capital Outlay	15,702	-	-	15,702
Total Expenditures	<u>239,207</u>	<u>162,165</u>	<u>-</u>	<u>401,372</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>228,036</u>	<u>(51,341)</u>	<u>23,792</u>	<u>200,487</u>
<b><u>Other Financing Sources (Uses):</u></b>				
Operating Transfers In	47,000	56,056	10,000	113,056
Operating Transfers Out	(20,800)	-	-	(20,800)
Total Other Financing Sources (Uses)	<u>26,200</u>	<u>56,056</u>	<u>10,000</u>	<u>92,256</u>
Net Change in Fund Balances	254,236	4,715	33,792	292,743
Fund Balance, July 1	<u>677,621</u>	<u>94,809</u>	<u>151,052</u>	<u>923,482</u>
Fund Balance, June 30	<u>\$ 931,857</u>	<u>\$ 99,524</u>	<u>\$ 184,844</u>	<u>\$ 1,216,225</u>

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2008**

	<u>Major Street</u>	<u>Local Street</u>	<u>Donations</u>	<u>Solid Waste Community Recycling</u>	<u>Environmental Defense</u>	<u>Drug Law Enforce.</u>
<b><u>ASSETS</u></b>						
Cash and Cash Equivalents	\$ 423,604	\$ 198,061	\$ 300	\$ 18,734	\$ 24,541	\$ 39,083
Accounts Receivable	-	504	-	-	-	-
Due From Other Governmental Units	37,378	12,471	-	-	-	-
Due From Other Funds	2,000	-	6,556	-	-	-
Prepaid Expenditures	94	95	-	-	-	-
Total Assets	<u>\$ 463,076</u>	<u>\$ 211,131</u>	<u>\$ 6,856</u>	<u>\$ 18,734</u>	<u>\$ 24,541</u>	<u>\$ 39,083</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>						
Liabilities:						
Accounts Payable	\$ 3,453	\$ 738	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	158	158	-	-	-	-
Due to Other Funds	28,000	34,000	2,407	-	-	-
Total Liabilities	<u>31,611</u>	<u>34,896</u>	<u>2,407</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:						
Unreserved:						
Undesignated	<u>431,465</u>	<u>176,235</u>	<u>4,449</u>	<u>18,734</u>	<u>24,541</u>	<u>39,083</u>
Total Liabilities and Fund Balance	<u>\$ 463,076</u>	<u>\$ 211,131</u>	<u>\$ 6,856</u>	<u>\$ 18,734</u>	<u>\$ 24,541</u>	<u>\$ 39,083</u>

<u>Police Reserve</u>	<u>Police Training</u>	<u>E 911</u>	<u>Youth Program</u>	<u>Forestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ 1,456	\$ 8,835	\$ 77,794	\$ 3,683	\$ 1,224	\$ 85,994	\$ 24,271	\$ 907,580
-	-	34,108	-	-	14,888	-	49,500
-	-	-	-	-	-	-	49,849
-	-	-	-	-	1,177	-	9,733
-	-	-	-	-	-	-	189
<u>\$ 1,456</u>	<u>\$ 8,835</u>	<u>\$ 111,902</u>	<u>\$ 3,683</u>	<u>\$ 1,224</u>	<u>\$ 102,059</u>	<u>\$ 24,271</u>	<u>\$ 1,016,851</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 294	\$ -	\$ 4,485
-	-	-	-	-	-	-	316
-	786	-	-	-	-	15,000	80,193
-	786	-	-	-	294	15,000	84,994
<u>1,456</u>	<u>8,049</u>	<u>111,902</u>	<u>3,683</u>	<u>1,224</u>	<u>101,765</u>	<u>9,271</u>	<u>931,857</u>
<u>\$ 1,456</u>	<u>\$ 8,835</u>	<u>\$ 111,902</u>	<u>\$ 3,683</u>	<u>\$ 1,224</u>	<u>\$ 102,059</u>	<u>\$ 24,271</u>	<u>\$ 1,016,851</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2008**

	Major Street	Local Street	Donations	Solid Waste Community Recycling	Environmental Defense	Drug Law Enforce.
<b><u>Revenues:</u></b>						
Intergovernmental	\$ 228,237	\$ 76,108	\$ -	\$ -	\$ -	\$ -
Charges for Services	270	1,125	-	-	-	-
Interest	10,715	3,244	-	694	1,119	64
Other	97	14,383	6,856	-	-	19,023
Total Revenues	<u>239,319</u>	<u>94,860</u>	<u>6,856</u>	<u>694</u>	<u>1,119</u>	<u>19,087</u>
<b><u>Expenditures:</u></b>						
General Government	-	-	1,607	-	-	-
Public Safety	-	-	-	-	-	-
Public Works	121,821	76,481	-	-	-	-
Capital Outlay	15,702	-	-	-	-	-
Total Expenditures	<u>137,523</u>	<u>76,481</u>	<u>1,607</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>101,796</u>	<u>18,379</u>	<u>5,249</u>	<u>694</u>	<u>1,119</u>	<u>19,087</u>
<b><u>Other Financing Sources (Uses):</u></b>						
Operating Transfers In	7,000	40,000	-	-	-	-
Operating Transfers Out	(20,000)	-	(800)	-	-	-
Total Other Financing Sources (Uses)	<u>(13,000)</u>	<u>40,000</u>	<u>(800)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	88,796	58,379	4,449	694	1,119	19,087
Fund Balance , July 1	<u>342,669</u>	<u>117,856</u>	<u>-</u>	<u>18,040</u>	<u>23,422</u>	<u>19,996</u>
Fund Balance , June 30	<u>\$ 431,465</u>	<u>\$ 176,235</u>	<u>\$ 4,449</u>	<u>\$ 18,734</u>	<u>\$ 24,541</u>	<u>\$ 39,083</u>



<u>Police Reserve</u>	<u>Police Training</u>	<u>E 911</u>	<u>Youth Program</u>	<u>Forestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ -	\$ 1,637	\$ 40,588	\$ -	\$ -	\$ -	\$ -	\$ 346,570
-	536	-	-	-	-	-	1,931
-	-	2,231	41	3	1,546	24	19,681
<u>1,550</u>	<u>-</u>	<u>10,718</u>	<u>381</u>	<u>-</u>	<u>55,728</u>	<u>(9,675)</u>	<u>99,061</u>
<u>1,550</u>	<u>2,173</u>	<u>53,537</u>	<u>422</u>	<u>3</u>	<u>57,274</u>	<u>(9,651)</u>	<u>467,243</u>
-	-	-	8,920	-	1,138	-	11,665
94	7,608	5,836	-	-	-	-	13,538
-	-	-	-	-	-	-	198,302
-	-	-	-	-	-	-	15,702
<u>94</u>	<u>7,608</u>	<u>5,836</u>	<u>8,920</u>	<u>-</u>	<u>1,138</u>	<u>-</u>	<u>239,207</u>
<u>1,456</u>	<u>(5,435)</u>	<u>47,701</u>	<u>(8,498)</u>	<u>3</u>	<u>56,136</u>	<u>(9,651)</u>	<u>228,036</u>
-	-	-	-	-	-	-	47,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,800)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,200</u>
1,456	(5,435)	47,701	(8,498)	3	56,136	(9,651)	254,236
<u>-</u>	<u>13,484</u>	<u>64,201</u>	<u>12,181</u>	<u>1,221</u>	<u>45,629</u>	<u>18,922</u>	<u>677,621</u>
<u>\$ 1,456</u>	<u>\$ 8,049</u>	<u>\$ 111,902</u>	<u>\$ 3,683</u>	<u>\$ 1,224</u>	<u>\$ 101,765</u>	<u>\$ 9,271</u>	<u>\$ 931,857</u>



**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Debt Service Funds**  
**June 30, 2008**

	<u>General Obligation</u>	<u>Northside Special Assessment</u>	<u>Southside Trunk Sewer</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 699	\$ 72,918	\$ 67,082	\$ 140,699
Special Assessments Receivable	<u>-</u>	<u>204,953</u>	<u>660,621</u>	<u>865,574</u>
Total Assets	<u>\$ 699</u>	<u>\$ 277,871</u>	<u>\$ 727,703</u>	<u>\$ 1,006,273</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Deferred Revenue	\$ -	\$ 204,953	\$ 660,621	\$ 865,574
Accounts Payable	-	175	-	175
Due to Other Funds	<u>-</u>	<u>-</u>	<u>41,000</u>	<u>41,000</u>
Total Liabilities	<u>-</u>	<u>205,128</u>	<u>701,621</u>	<u>906,749</u>
Fund Balance:				
Reserved for Debt Service	<u>699</u>	<u>72,743</u>	<u>26,082</u>	<u>99,524</u>
Total Liabilities and Fund Balance	<u>\$ 699</u>	<u>\$ 277,871</u>	<u>\$ 727,703</u>	<u>\$ 1,006,273</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2008**

	<b><u>General Obligation</u></b>	<b><u>Northside Special Assessment</u></b>	<b><u>Southside Trunk Sewer</u></b>	<b><u>Total</u></b>
<b><u>Revenues:</u></b>				
Special Assessment	\$ -	\$ 58,838	\$ 49,228	\$ 108,066
Interest	1	1,894	863	2,758
Total Revenues	<u>1</u>	<u>60,732</u>	<u>50,091</u>	<u>110,824</u>
<b><u>Expenditures:</u></b>				
Debt Service				
Principal Retirement	15,000	40,000	55,000	110,000
Interest, Fiscal Charges	10,575	14,410	27,180	52,165
Total Expenditures	<u>25,575</u>	<u>54,410</u>	<u>82,180</u>	<u>162,165</u>
Excess (Deficiency) of Revenues Over Expenditures	(25,574)	6,322	(32,089)	(51,341)
<b><u>Other Financing Sources:</u></b>				
Operating Transfers In	<u>25,555</u>	<u>-</u>	<u>30,501</u>	<u>56,056</u>
Net Change in Fund Balance	(19)	6,322	(1,588)	4,715
Fund Balance, July 1	<u>718</u>	<u>66,421</u>	<u>27,670</u>	<u>94,809</u>
Fund Balance, June 30	<u>\$ 699</u>	<u>\$ 72,743</u>	<u>\$ 26,082</u>	<u>\$ 99,524</u>

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Capital Project Funds**  
**June 30, 2008**

	<b><u>Capital Improvement</u></b>	<b><u>Southside Sewer</u></b>	<b><u>Total</u></b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 13,177	\$ 171,667	\$ 184,844
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
Liabilities:			
Accounts Payable	\$ -	\$ -	\$ -
Fund Balance:			
Reserved for Construction	13,177	171,667	184,844
Total Liabilities and Fund Balance	\$ 13,177	\$ 171,667	\$ 184,844

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Nonmajor Capital Project Funds**  
**For the Year Ended June 30, 2008**

	<b><u>Capital Improvement</u></b>	<b><u>Southside Sewer</u></b>	<b><u>Total</u></b>
<b><u>Revenues:</u></b>			
Interest Income	\$ 79	\$ 10,373	\$ 10,452
Other	-	13,340	13,340
	<u>79</u>	<u>23,713</u>	<u>23,792</u>
<b><u>Expenditures:</u></b>			
Construction	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	79	23,713	23,792
<b><u>Other Financing Sources:</u></b>			
Operating Transfers In	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Net Change in Fund Balance	10,079	23,713	33,792
Fund Balance - July 1	<u>3,098</u>	<u>147,954</u>	<u>151,052</u>
Fund Balance - June 30	<u>\$ 13,177</u>	<u>\$ 171,667</u>	<u>\$ 184,844</u>

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Proprietary Funds**  
**June 30, 2008**

	<u>Storm Sewer</u>	<u>Mooreville Sewer</u>	<u>Public Transit</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Current Assets:				
Cash and Cash Equivalents	\$ 86,513	\$ 31,890	\$ 1,751	\$ 120,154
Due from Other Governmental Units:				
Federal	-	-	5,750	5,750
State	-	-	6,603	6,603
Due From Other Funds	-	569	60,000	60,569
Prepaid Expense	1,895	-	-	1,895
Total Assets	<u>\$ 88,408</u>	<u>\$ 32,459</u>	<u>\$ 74,104</u>	<u>\$ 194,971</u>
<b><u>LIABILITIES AND EQUITY</u></b>				
Current Liabilities:				
Accrued Liabilities	\$ 231	\$ -	\$ 40,616	\$ 40,847
Accounts Payable	2,394	-	108	2,502
Due to Other Governmental Units				
Federal	-	-	-	
State	-	-	25,645	25,645
Due to Other Funds	15,000	300	-	15,300
Total Current Liabilities	<u>17,625</u>	<u>300</u>	<u>66,369</u>	<u>84,294</u>
Equity-Unrestricted	<u>70,783</u>	<u>32,159</u>	<u>7,735</u>	<u>110,677</u>
Total Liabilities and Equity	<u>\$ 88,408</u>	<u>\$ 32,459</u>	<u>\$ 74,104</u>	<u>\$ 194,971</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenses and Changes in Fund Equity**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2008**

	<u>Storm Sewer</u>	<u>Mooreville Sewer</u>	<u>Public Transit</u>	<u>Total</u>
<b><u>Operating Revenues</u></b>				
Intergovernmental-Local	\$ -	\$ 2,276	\$ -	\$ 2,276
Intergovernmental-State	-	-	(205)	(205)
Intergovernmental-Federal	-	-	5,750	5,750
Charges for Services	-	-	56	56
Total Operating Revenue	<u>-</u>	<u>2,276</u>	<u>5,601</u>	<u>7,877</u>
<b><u>Operating Expenses:</u></b>				
Other	<u>15,437</u>	<u>1,600</u>	<u>61,720</u>	<u>78,757</u>
Operating Income (Loss)	<u>(15,437)</u>	<u>676</u>	<u>(56,119)</u>	<u>(70,880)</u>
<b><u>Non-Operating Revenues (Expenses):</u></b>				
Loss on Sale of Asset	-	-	(188,219)	(188,219)
Interest Earned	<u>3,282</u>	<u>1,392</u>	<u>1</u>	<u>4,675</u>
Total Non Operating Revenue (Expenses)	<u>3,282</u>	<u>1,392</u>	<u>(188,218)</u>	<u>(183,544)</u>
Income (Loss) before Operating Transfers	(12,155)	2,068	(244,337)	(254,424)
<b><u>Operating Transfers:</u></b>				
Operating Transfer In	<u>-</u>	<u>-</u>	<u>108,294</u>	<u>108,294</u>
Net Income (Loss)	(12,155)	2,068	(136,043)	(146,130)
Capital Contributions	8,000	-	-	8,000
Fund Equity, Beginning	<u>74,938</u>	<u>30,091</u>	<u>143,778</u>	<u>248,807</u>
Fund Equity, Ending	<u>\$ 70,783</u>	<u>\$ 32,159</u>	<u>\$ 7,735</u>	<u>\$ 110,677</u>



**CITY OF MILAN**  
**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds**  
**For the Year Ended June 30, 2008**

	Storm Sewer	Mooreville Sewer	Public Transit	Total
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from quasi-external transactions	\$ -	\$ 2,276	\$ 3,917	\$ 6,193
Payments to suppliers	(5,402)	(1,031)	(55,582)	(62,015)
Payments to employees	(4,425)	-	-	(4,425)
Net Cash Provided (Used) by Operating Activities	<u>(9,827)</u>	<u>1,245</u>	<u>(51,665)</u>	<u>(60,247)</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Transfers from Other Funds	-	-	48,294	48,294
Proceeds from Capital Charges	8,000	-	-	8,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>8,000</u>	<u>-</u>	<u>48,294</u>	<u>56,294</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Interest Earned	3,282	1,392	1	4,675
Net Cash Provided (Used) by Investing Activities	<u>3,282</u>	<u>1,392</u>	<u>1</u>	<u>4,675</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,455	2,637	(3,370)	722
Cash and Cash Equivalents, Beginning	<u>85,058</u>	<u>29,253</u>	<u>5,121</u>	<u>119,432</u>
Cash and Cash Equivalents, Ending	<u>\$ 86,513</u>	<u>\$ 31,890</u>	<u>\$ 1,751</u>	<u>\$ 120,154</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>				
Operating Income (Loss)	\$ (15,437)	\$ 676	\$ (56,119)	\$ (70,880)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
(Increase) Decrease in Due from Other Units	-	569	(1,684)	(1,115)
(Increase) Decrease in Prepaid Expenses	(1,797)	-	-	(1,797)
Increase (Decrease) in Accounts Payable	2,394	-	(1,800)	594
Increase (Decrease) in Accrued Liabilities	13	-	41,233	41,246
Increase (Decrease) in Due to Other Funds	5,000	-	(33,295)	(28,295)
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,827)</u>	<u>\$ 1,245</u>	<u>\$ (51,665)</u>	<u>\$ (60,247)</u>



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December 12, 2008

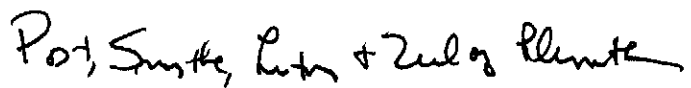
Mayor and City Council  
City of Milan  
Milan, Michigan

In planning and performing our audit of the City of Milan for the year ended June 30, 2008, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated December 12, 2008, on the financial statements of the City of Milan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,

  
Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants

### Contingencies

As detailed in the notes to the financial statements (Note V. F. 1 & 2), the City faces financial challenges as the result of property tax litigation from its largest taxpayer, and the lack of "capital charge" revenues anticipated to fund a significant portion of the debt service requirements of the \$13,600,000 general obligation bonds issued to finance the expansion of the waste water treatment plant in 2006.

While progress has been made on building the City's general fund balance, which as of the end of fiscal year 2008 stands at \$813,578 (15.5% of 2008 revenues), additional efforts are needed to meet the potential refunds due (over \$1.2M if taxpayer prevails), and continue to fund the financial obligations for the aforementioned bonds.

We suggest that the City continue its cost cutting efforts in all areas, and review means to increase revenues, including utility rate and property tax rate increase.

### Water and Sewer Rates

The 2009 budget was based on modest rate increases in the commodity charge component of the rate structure (around 2.5%), with no increases in the other charges, such as "readiness to serve" or billing expenses. We strongly recommend that City Council consider conducting a complete review of the methodologies used in the rate setting process; the customer base is concentrated in several large users, who pay over 50% of the commodity based (unit charges), but less than 5% of the "readiness to serve" fixed charges. The City's general fund subsidies to the water and sewer fund totaled \$550,632 in fiscal 2008, and \$550,000 in the 2009 budget, should also be considered in the rate setting process.

### Accounting Issues

While the quality of the information presented for audit significantly improved, as evidenced by lower number of year end audit adjustments, the accounting processes at the City of Milan need additional resources performed on a consistent basis, to accomplish better interim financial reporting, and timelier year end closings. Our specific suggestions are:

- Expenditures such as accounts payable and payroll should be recorded on the accrual method of accounting – currently the City recognizes expenditures on the cash basis until year end.
- Account Reconciliations – significant balance sheet accounts should be recorded to subsidiary records on a monthly basis.
- Cost allocations to other funds should be reviewed and consideration should be given to replacing many small direct cost allocations, with an indirect administrative cost allocation plan. This should save significant time and simplify banking.

### Accounting Issues-Continued

- Banks should be reconciled each month on a timely basis; this is a key internal control component. Also, the bank reconciliation process is made more complex by the large number of reconciling items, many of which are corrections in the accounting process, which should be remedied by journal entry. Also, the State Treasurer indicates that all checking accounts should have either the actual cancelled checks or electronic images returned with the monthly statements. During 2008, checks clearing August 2007-June 2008 did not have the required items returned with the statements.

### Other Internal Control Matters

To improve internal control, and cash flow, we suggest the following:

- Consider "positive pay" which is a service offered by your bank which records pertinent information about each check such as the amount, the check number, bank information and date, and then transmits it to the bank to be verified, before the check can be paid. This will help insure that only authorized payments are paid by the bank. All Depository accounts should be separated from disbursement accounts, and ACH filters and or blocks should be used on all accounts.
- Establish a separate accounts payable checking account for larger transactions and limit the dollar amount of the "typical" payable and payroll checks to a specific amount. Your bank offers a service which automatically returns checks unpaid if they exceed a given dollar limit.
- Consider expanded use of regional "lock box" services offered by your bank. "Lock boxes" are post office boxes where City funds are directed through the mail, and deposited into the appropriate (general, tax, and utility) City accounts directly by your bank. These banking services will also work with your accounting software to update customer accounts in an automated fashion. Use of "lock boxes" generally improve internal control, cash flow and can be used to lower administrative costs.
- Study the possibility of third party payroll – the City has significant staff resources committed to accomplishing payroll "in house", which could be "re-deployed" to other areas. Additionally better internal controls generally results as duties are far easier to segregate.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the City as a whole to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid, in the "Entity Wide" financial statements. The new pronouncement is effective for the year ending June 30, 2009, and will require actuarial valuations of the liability at least tri-annually.

Equipment Rental Charges-Major and Local Streets

Department of Transportation requires local units of government to charge equipment usage fees to Major and Local Street Funds, based on actual hours of operation, using appropriate rates. During fiscal year 2008, the City based these charges on estimated usage hours. We recommend that the administration track the actual hours, as required by MDOT standards.